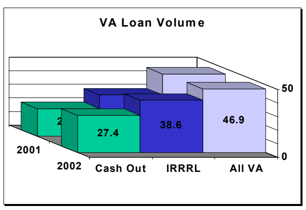
Refinancing VA Loans
2/12/03

Introduction

Herman: Welcome to today's broadcast. Today, we're going to talk about VA refinance loans. Given that interest rates are at their lowest levels in 40 years, I'm sure you're seeing continued demand for refinances. We certainly are! VA refinances represented approximately xx% of our total volume last year, and that reflects a trend over the last several years. In fact, I think we have a news clip about some trends in VA loans. Let's take a look.

(Switch to tape roll-in of this segment. Scene would be a news desk with a graphic in the background or above the reader's shoulder):



"In today's news, the number of VA refinance loans closed continues to increase. As you can see from the graphic onscreen (**Power Point Slide**: Data presented as bars and line chart like evening news stock market recap. See sample on left. I have several other samples and ideas.) the number of VA Cash Out Loans increased XX% in 2002, accounting for XX% of all VA loans made across the country. Likewise, VA Interest Rate Reduction Refinances or Streamlines increased XX%. This data seems consistent with the overall mortgage market, where refinances made up XX% of all mortgage loans closed last year. For more detail on this story, let's turn to our loan reporter, Jill Arrington for more detail. Jill?"☺

(**Power Point Slide**: A weather screen appears showing volume numbers on top of each RLC. Person doing the reading does not have to be onscreen, so we can get someone (female) to read and record this during the walkthrough).

"Thanks, Bill. As you can see, we had a high of XX,XXX loans in Denver, followed closely by X,XXX across the Midwest. There's some concern of a downward trend in the South, but with the help of today's broadcast, we look for improving conditions all around. Now, back to the guys in the studio…"...Etc..etc...etc.....

Herman: Well, as you can see, there *is* a lot going on with VA loans these days. Our goal today is to teach you about the refinance products VA has to offer to your veteran clients, explain the in's and outs of each, and maybe provide a few tips and tricks that will help you get through the process as smoothly and quickly as possible.

[**Power Point Slide:** Title: **Learning Objective:** Bullet: By the end of our presentation, you will understand the two types of VA refinance loans available, and how to process them.]

By the end of our presentation, you will understand the two types of VA refinance loans available, and how to process them. Let's get started then. Mark, can you tell us what types of VA refinance loans are available?
BILL: VA offers two types of guaranteed refinance loans; the Cash Out and the Interest Rate Reduction Refinance Loan, also known as an IRRRL or a VA Streamline. Let's start with the Cash Out first.

[**Power Point Slide: VA Cash Out Refinance**

☆ Refinance an existing lien, even if that loan is not a VA guaranteed mortgage.

☆ The new loan may include other debts and energy efficiency improvements.

☆ The veteran can receive cash back at closing.

☆ Limited to 90% of the appraised value (80% in Texas).

Bill: A VA Cash Out Refinance is a loan that enables a veteran to refinance the outstanding balance of an existing mortgage lien, whether or not that loan is a VA guaranteed mortgage. The new loan may include other debts and energy efficiency improvements. The veteran can also receive cash back at closing, and that cash can be used to pay for closing costs as well as anything else acceptable to the lender. The only limit is that the loan proceeds are limited to 90% of the fair market value of the property, as determined by a VA appraisal. That limit is 80% in Texas, due to state laws there.

Herman: You mentioned 'other debts.' What does this include?

BILL: Good question. Why don't we ask the audience what they think can be included before I get started?

Herman: Good idea. Audience?

[**FQ #5 - Which of the following types of debts, can be included in a VA Cash Out Refinance Loan? A) credit cards, b) student loans, c) judgements, d) tax liens, or e) all of the above.**]

BILL: The correct answer is all of the above, ‘e’. Besides the original first lien, the cash out can include 2nd mortgages, credit card debts, tax liens or judgements, basically any outstanding debt the veteran might have. Keep in mind that these loans are subject to VA’s credit and underwriting standards, so if the debts are ‘bad debts,’ the veteran may not qualify for the loan.

Herman: So you’ve covered other debts. What about energy efficiency improvements? What are these?

BILL: Common examples include things like storm windows, insulation, vinyl or aluminum siding, and solar panels. What can be considered energy efficiency improvements is really up to the lender. Generally, energy efficiency improvements should be limited to a total of $6,000, but even that total can be exceeded if the value of the property can support it. For more detailed information, you may want to review Chapter 7, paragraph 7.03 of the VA Lender’s Handbook.

Herman: Earlier, you mentioned that the veteran could get cash back. Can you discuss that a little bit?

BILL: Sure. Basically, the borrower can receive cash at closing for any purpose that is acceptable to the lender. Of course, if the proceeds from the refinance are to consolidate other debts, those funds will likely be disbursed by the title company directly to the creditors. However, let’s say the veteran wanted to make some repairs or remodel his home. As long as there is sufficient equity, based on the VA appraisal, he could receive cash at closing to be used for this purpose. The main thing is to make sure there is sufficient equity, and that leads nicely into loan amounts. Herman, let’s ask the audience a question.

[FQ# - What is the maximum loan amount on a VA Cash Out Refinance? a) 90% of the reasonable value of the property, b) 100% of the reasonable value of the property, c) $144,000, d) $203,000, or e) There is no limit.]

The correct answer is A) 90% of the reasonable value. On a VA Cash Out Refinance, the loan amount cannot exceed 90% of the reasonable value, as determined by a VA appraisal, plus the VA funding fee, and the cost of energy efficiency improvements.

The total of the following items cannot exceed 90% of the property’s value: **[PP# Title - 90% of value 1st bullet - total payoff of all liens 2nd bullet - allowable fees and charges 3rd bullet - reasonable discount points 4th bullet - any cash to the borrower]** the total payoff of all liens, allowable fees and charges, and any cash to the borrower.

Also, the closing costs can be paid out of the cash proceeds to the borrower, but they can only be included up to the point where the total loan is 90% of the reasonable value. I know this can be a little confusing to follow. If you have any questions, give us a call. I should mention that allowable fees and charges are covered in Chapter 8 of the VA Lender's Handbook, specifically in paragraph 8.02.

Herman: I think you've pretty much covered what a Cash Out loan is and what can be included. Now, let's move forward to the processing and closing of VA Cash Out Refinance Loans.

BILL: Good idea. Let's start with occupancy. It's very straightforward; the veteran must certify that the property being refinanced is or will be his primary place of residence. This is the same requirement that is in place for the purchase of a home using a VA loan.

Now, a word about eligibility. Like a traditional purchase, the veteran must have sufficient eligibility. Eligibility for cash outs is handled slightly differently, depending on whether or not the loan being refinanced is an existing VA loan. In either case, the veteran will complete VA Form 26-1880, attach a copy of their discharge papers and submit that package to one of VA's two eligibility centers. If you need more information about how to help a veteran apply for a Certificate of Eligibility, look to page XX of the student materials. However, if an existing VA loan will be paid off by refinancing, the entitlement can be restored for the purpose of obtaining the new loan only.

To accomplish this, the veteran will need to submit a copy of the loan application along with the 1880 and discharge papers. This should be a copy of the loan application that was submitted to the lender.

Herman: Why would they need to submit a copy of the loan application?

Ed: Good question. The reason is that we will be restoring the eligibility only for the purpose of refinancing the currently outstanding VA loan. When the lender or veteran receives the COE, they will notice that the 2nd block will be checked. **[cg: picture of COE with 2nd check block and statement highlighted or emphasized]** The statement following that block reads: "Excluded entitlement previously used for VA LIN (it will show the VA loan number of the current loan) as shown herein is available for use in connection with the property which secured that loan."

If we issued an updated certificate showing entitlement restored the veteran could use it again without disposing of the property. Also lenders and investors would call VA and ask why the current loan wasn't mentioned on the COE.

Herman: That makes sense. Ed, what do lenders need to know about the guaranty?

Ed: Simple. The maximum guaranty on a Cash Out will be $36,000, even if the loan amount exceeds $144,000. This is true even if the original first lien was a VA mortgage and was guaranteed for more than $36,000.

It is important to remember that a cash-out refinancing is limited to 90% of the reasonable value of the property. Only the VA funding fee and the cost of any energy efficiency improvements may added to the 90% limit to increase the loan amount. There is an exception to the 90% rule and that is in the state of Texas, where the LTV is limited to 80% by state law.

Herman: Bill, Tell us about processing cash out loans.

BILL: Loan processing procedures for a cash-out refinance are virtually identical to a regular VA purchase loan. A full appraisal, credit information, and underwriting is required. The main difference is that cash-out refinances require a statement signed by the veteran which shows:

PP Slide No (X) Signed Statement by Veteran

- the <u>cash</u> proceeds paid
- an <u>itemization</u> of the debts paid from loan proceeds, and
- the <u>identification</u> of those debts secured by liens of record.

Herman: Can cash-out refinances be closed automatically, or do they require VA prior approval processing?

BILL: Only lenders with authority to close loans on the automatic basis may close cash-out refinancing loans automatically. All others must submit these loans for prior approval by VA. This is different than IRRRLs, which we will cover in a few minutes.

Herman: You mentioned something about maximum guaranty a few moments ago. Is the maximum guaranty any different for cash-out refinances than for normal VA purchase loans?

BILL: Yes, there is a difference. **Maximum guaranty** is an important factor to keep in mind when originating VA cash-out refinancing loans. The maximum guaranty on cash-out refinancing loans is limited to $36,000, even for loans in excess of $144,000. As you probably already know the maximum guaranty for most other VA loans is $60,000 on loans greater than $144,000. The $36,000 maximum guaranty is a very important consideration when you are selling your loans on the secondary market. If you make a VA cash-out refinancing loan greater than $144,000, VA's guaranty will be less than 25%. This lower percentage of VA guaranty may create difficulty in selling the loan on the secondary market.

HERMAN: Ed, can you go over the funding fee costs for cash-out refinances?

ED: Sure Herman. For veterans with regular military service the funding fee is 2% for first time use and 3% for subsequent use. For Reserves/National Guard the funding fee is 2.75% for first time use and 3% for subsequent use. And as with other VA loans, if the veteran is exempt due to service connected disability, there is no funding fee.

If from today's broadcast you don't remember anything else about cash-out refinances, remember these **four** things:

PP Slide No (X) : Things to Remember

- the <u>loan is limited to 90% of the reasonable value</u> of the property
- <u>maximum guaranty</u> is $36,000
- the loan must <u>pay-off an existing lien</u> of record
- <u>underwriting and appraisal requirements</u> are the same as a regular VA purchase

Ed There is one other thing Herman that I would like to mention about a VA Cash-out Refinance. Even though by definition the loan is called a "Cash-out Refinance", the veteran does not have to have received cash back the transaction. In fact it is very common on these type loans that the veteran does not receive any cash back at closing.

Herman: I'd say we've covered cash out loans in sufficient detail. Let's move on to IRRRLs. Ed?

Ed: [**Power Point Slide**: Definition of streamline: A Streamline Refinance is a new VA guaranteed loan made to refinance an <u>existing</u> VA guaranteed loan.]

A VA Streamline loan or IRRRL, is a new VA guaranteed loan made to refinance an existing VA guaranteed loan. In most cases, the new loan will be made at a lower interest rate than the existing loan, and the new P&I payment will be reduced as well. Another important fact is that this type of loan can only include payoff of the existing VA mortgage. It cannot include other debts or cash back to the borrower.

A point I would like to make now is that the existing VA loan must have been originated by your veteran client, or was a VA loan that was assumed by your veteran client and his or her entitlement was substituted. The bottom line is that the VA loan being refinanced must have your veteran client's entitlement securing the loan.

HERMAN: You have defined an IRRRL loan. How about telling the audience who an IRRRL can be made to?

Ed: Herman, as a general rule the party or parties obligated on the original VA loan must be the same on the new loan. The lender should contact VA regarding a proposed IRRRL involving a change in obligors if the lender is unsure if it meets VA acceptability.

The table on page (X) of your student materials is a good tool to use when the IRRRL that you are originating has a change of original obligors. The table gives ten examples of various scenarios in which the original obligors have changed and whether each scenario meets VA acceptability requirements for an IRRRL loan.

Herman: How does the lender find out if the existing loan is a VA loan eligible to be refinanced with an IRRRL?

Ed: It is very easy. Effective January 1, 2003, lenders should use the web site: **[cg: http://www.vba-roanoke.com/rlc/GILoans.asp]** to submit IRRRL Status Inquiries in lieu of obtaining a Certificate of Eligibility for IRRRLs or emailing the Regional Loan Centers directly, as we use to do. This new service is an automated service that will process the request within 24 hours of submission, 7 days a week. This service can be used for all VA loans, irrespective of the property location, or VA office of jurisdiction. To use this Loan Inquiry Service, lenders will need the first six digits of their VA lender identification number and an e-mail address. On-line instructions are available at:
[cg: http://www.vba-roanoke.com/rlc/GILoans.asp] and we've provided a copy of the instructions as well as given the website, on page xx of your student materials.

HERMAN: Are there any limitations to the IRRRL loan amount?

Ed: Yes Herman, the IRRRL loan amount is limited to the following:

PP Slide No (X) IRRRL Loan Limitations

- payoff of existing VA mortgage
- financing of allowable closing costs
- financing of up to 2 discount points
- financing of the VA funding fee
- cost of any energy efficiency improvements

HERMAN: Is there a maximum loan term for a VA IRRRL?

ED: Yes there is Herman. The maximum loan term is the original term of the VA loan being refinanced plus 10 years, but not to exceed 30 years and 32 days.

Herman, lets ask the audience a question.

FQ#(x) Herman: An IRRRL can be used to refinance any mortgage loan by a veteran?

Herman: What is the correct answer Ed?

Ed: The correct answer is **FALSE.** An IRRRL can only be used to refinance an existing VA home loan.

HERMAN: What about the funding fee on IRRRL loans?

ED: The answer to that is very simple Herman, the funding fee on an IRRRL is always 0.5%(1/2%) of the loan amount unless the veteran is exempt due to a service connected disability.

HERMAN: Lenders are always concerned about the amount of guaranty that they will receive on a VA loan. Can you tell the audience the ins and outs on computing guaranty amounts on IRRRL loans?

The amount of VA guaranty on a loan is an important factor for all lenders when they sell the loan on the secondary market. Computing the amount of guaranty that you will have on an IRRRL is relatively simple. As a general rule the VA guaranty that you will have on an IRRRL is the same amount of VA guaranty that was on the existing VA loan that you are refinancing or 25% of the IRRRL loan amount, whichever is greater. On IRRRL loans that are in excess of $144,000, the guaranty is always 25% of the IRRRL loan amount.

HERMAN: I know that IRRRL loans have some special requirements and conditions; can you go over some of the items you think the audience should remember?

Sure Herman, there are several important requirements that each lender should consider when originating an IRRRRL loan. The new IRRRL must be at a fixed interest rate and the interest rate must be lower than the loan that it is refinancing unless the loan you are refinancing is an Adjustable Rate Mortgage (ARM).

Also, the principal and interest payment on an IRRRL must be less that the principal and interest payment on the loan being refinanced unless one of the following exceptions apply:

PP Slide No (X) Exceptions

- the IRRRL is <u>refinancing an ARM</u>
- the <u>term</u> of the IRRRL is shorter than the term of the loan being refinanced,

or

- energy efficiency improvements are included in the IRRRL

A significant increase in the veteran's monthly payment may occur with any of the three exceptions that we just discussed, especially if the exceptions are combined with one or more of the following scenarios:

PP Slide No (X) Significant Increase in Monthly Payment

- financing of closing costs
- financing of up to 2 discount points
- financing of the VA funding fee
- higher interest rate that the ARM being refinanced

If the monthly payment (PITI) increases by 20% or more you must do the following:

- make the determination that the veteran qualifies for the new payment from an underwriting standpoint; such as, determine whether the veteran can support the proposed new payment and other recurring monthly obligations and his income is stable and reliable.
- Include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more.

Also, for all IRRRLs, the veteran must sign a statement acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. The statement must show the interest rate and monthly payments for the new loan versus that for the old loan.

I have discussed this previously, but I want to reiterate that an IRRRL cannot be used to take equity out of the property or pay off debts other than the VA loan being refinanced. Loan proceeds may only be applied to paying off the existing VA loan and to the costs of obtaining or closing the IRRRL. Therefore, the general rule is that the veteran can not receive cash proceeds from the loan. As is the case with most rules there are some exceptions, which I will cover briefly:

PP Slide No (X) Exceptions to Cash Back Rule

- the veteran may be reimbursed for the cost of energy efficiency improvements up to $6,000 if they were completed within 90 days immediately preceding the date of loan closing
- computational errors
- changes in final pay-off figures
- up-front fees paid for the appraisal and/or credit report that are later added into the loan
- refund of the escrow balance on the old loan.

HERMAN: Does an IRRRL loan have any special title or lien requirements?

Yes Herman, the IRRRL must replace the existing VA loan as the first lien on the same property. Any second lien-holder would have to agree to subordinate. Also the veteran cannot pay off liens other than the existing VA loan from the IRRRL proceeds and the veteran or surviving co-obligor spouse must still own the property.

HERMAN: The VA requires the veteran to personally occupy the property on a purchase. Is the requirement any different for an IRRRL loan?

Yes Herman, there is a different requirement. For IRRRL's, the veteran does not presently have to occupy the property, but must certify that he or she previously occupied the property as their primary residence. A good example of this is a veteran who has a home he previously occupied as his primary residence using a VA home loan, but now rents the property to a third party. This property is eligible for a VA IRRRL loan since the veteran satisfied the prior occupancy requirement and he still owns the property.

HERMAN: Can any VA approved lender originate IRRRL loans?

This is one of the advantages that IRRRLs have; they can be closed on an automatic basis by any VA approved lender regardless of whether or not the lender has automatic authority and in any geographic area. The only exception is that in cases where the existing VA loan is 30 or more days delinquent, the IRRRL must be submitted to VA for prior approval. In these cases prior to submitting the loan to VA for approval, the lender must first obtain sufficient information and perform sufficient analysis to determine that the cause of the veteran's delinquency has been resolved and the veteran is now willing and able to make the proposed new loan payment.

Herman: What about processing requirements? Are there any special forms needed?

Ed: Lenders processing IRRRLs must complete the IRRRL Worksheet. That form tends to create a lot of confusion. There is a copy of the form on page xx of your student materials. While I'm not going to go through the form line by line, I did want to touch on some of the more common issues that come up. I think the main thing to understand is that the purpose of the form is to help you calculate the correct amounts for discount points, the funding fee and the new loan amount. Think of it like this: Section 1 is simply the payoff amount of the current loan. Section II is where you add any costs that will be included in the loan in order to arrive at what your new base loan amount will be, which you get on line 10. Once you have your base amount, you then use Section III to calculate the actual dollar amounts for your discount points and funding fee. A few things to keep in mind: In Section III the reason you subtract out the funding fee and discount points used in Section II is because those were estimates based on the old loan payoff. You are now adding in the actual figures, so you pull out the estimates to avoid double charging the veteran.

Additionally, Section II and III only matter if the veteran is rolling any costs into the loan. If the veteran is paying the closing costs and is exempt from the funding fee, then the amount on line 3 will match line 9 and line 18.

Another issue is discount points. Since this form is only for calculating the loan amount of the new loan, you only add in discount points that will be financed. Since 2 discount points are the most that can be rolled in, Line 5 and line 11 should never have more than 2%. You can charge more, but they must be paid at closing and can't be rolled into the loan, so they aren't included in this worksheet.

The worksheet is confusing. If you have any questions, please call in now or contact your RLC.

HERMAN: Are there any other types of VA Refinancing loans that are audience should know about?

Yes, Herman there is. There are three types of loans in this category.

POWER POINT Other Refinancing Loans

These consist of loans to refinance 1) <u>construction loans,</u> 2) <u>installment land sale contracts,</u> and <u>loans assumed by veterans at interest rates higher than that for the proposed refinance.</u>

The most important thing to remember on these type loans is that the maximum loan amount may not exceed the lesser of

- the VA reasonable value plus the VA funding fee, or
- the sum of the outstanding balance of the loan to a be refinanced plus allowable closing costs(including the funding fee) and reasonable discounts.

Also Herman, the cost of energy efficiency improvements can be added to this type
of refinancing loan.

Actually, these loans are like cash-out refinancing loans in all respects except the maximum loan amount is different. These loans are not based on 90% of reasonable value, and no cash is received by the borrower.

HERMAN: Ed mentioned earlier construction financing, Jerry can you give the audience some more details on the procedures when a veteran is buying or having a new home constructed?

Jerry: Well Herman, most new homes purchased with a VA loan are purchased as new construction. That sounds obvious, but new construction as defined by VA is a home that is complete, or complete other than customer preference items. Although this is not really a refinance, this is a popular way to purchase new homes with a VA loan because the processing is simple. VA loans can also be used to purchase homes that are proposed to be built. This is called, oddly enough, proposed construction. Proposed construction requires a little more paperwork to process than new construction, but is still a commonly used form of VA financing to purchase a new home. In both cases, the VA loan is usually closed after construction has been completed. We will cover the specific requirements for processing new and proposed construction in future broadcasts.

Herman: How does any of this relate to refinancing?

Jerry: New Construction and Proposed construction loans can be used to pay off or refinance construction loans taken out by the builder as part of the purchase of the property. But VA has a rather unique product that combines Construction Financing with the permanent end mortgage.

Herman: I wasn't aware of that.

Jerry: Not many people are Herman. This product is simply called a Construction-Permanent Home Loan. This loan is closed prior to the start of construction, and proceeds can be used to complete the purchase of land, with the remainder of the proceeds placed in escrow to be paid to the builder as progress payments during the construction of the house. This loan is much the same as a builder obtaining a construction loan and the veteran obtaining an end mortgage to pay off the builder's construction loan. The difference is that the construction loan and the end loan are one loan in the veteran's name, and no new loan is needed at the end of construction. That means there is only one closing and one set of closing costs. The veteran does not make payments until after construction is complete, and the first payment can be postponed for up to one year.

Herman: So no payments are made during construction? Seems to me that would cost the veteran a lot of interest.

Jerry: You're right Herman, but the builder is required to make interest payments during construction. This is where the Construction-Permanent Home loan is similar to typical construction financing.

Herman: Is the builder responsible for any other costs during construction?

Jerry: Yes Herman, all fees normally paid by a builder who obtains an interim construction loan, which includes but is not limited to the following:

PP#1
- Inspection Fees
- Commitment Fees
- Title Update Fees
- Hazard Insurance During Construction

From a builders perspective, the Construction-Permanent home loan is much the same as a regular construction loan, except it is not in the builders name, and he doesn't have to apply for it.

Herman: What happens when construction is complete?

Jerry: The loan balance is re-amortized so payoff is completed within the original maturity date of the loan, usually 30 years from the date the loan is closed. For example, if construction takes six months to complete, the loan is amortized to be paid off in 29 years and 6 months. The loan can also be amortized to include a balloon payment as the final installment, but the balloon must be no more than 5% of the original principal balance of the loan.

Herman: Are there any other unusual features of this loan that lenders should know about?

Jerry:
PP#2
- Funding fee due 15 days from closing
- Loan must be reported within 60 days of receipt of final inspection
- LGC not issued by VA until final inspection received

The funding fee is due and payable within 15 days of the date of closing, like any VA loan. It is not tied to the date of completion of construction. The loan must be reported to VA within 60 days of receipt of a clear final compliance inspection report. Although the loan will normally be considered guaranteed upon closing, the Loan Guaranty Certificate will not be issued until VA receives the clear final compliance inspection report.

Herman: Where can lenders find out more about the VA Construction-Permanent Home loan?

Jerry: Chapter 7 of the lenders handbook, Section 7.02, has more information about this VA loan product.

HERMAN: Thanks Jerry. Ed, after hearing about IRRRLs today, it sounds like to me that IRRRL loans are a **win –win –win** situation for the veteran, lender and VA.

In most cases Herman you are exactly right. But unfortunately we do see on occasion IRRRL loans that don't make good financial sense for the veteran and in turn places the government at undue risk. VA requires that the lender provide to the veteran a statement and has the veteran sign that he or she understands the effect of the refinancing loan. The statement must show interest rate and monthly payments for the old loan versus the new loan. We at VA have seen instances in which the new IRRRL loan has met all of VA's requirements, but due to a very small decrease in the veteran's interest rate and the cost of the refinancing rolled into the loan has not been truly beneficial to the veteran. This tells me that not all veterans fully comprehend the comparison of <u>old loan versus new loan</u> and the net effect on how it will impact them in the future.

HERMAN: Do you have any suggestions on how we can better inform the veteran in order for he or she to make an intelligent decision that the IRRRL loan is in their best interest financially for their own individual situation?

Ed: This is primarily a customer service issue. Having spent 20+ years in the mortgage industry prior to going to work for VA, I can attest to the fact that providing your customer with the best advice and information to make an informed decision on whether the IRRRL is truly in the customer's best interest will pay dividends back to you in the future. A client that you have assisted in making a wise decision on an IRRRL loan is in most cases going to come back to you for any needed mortgage financing in the future. Plus the client will refer your name and your company to friends, acquaintances, co-workers, and relatives who are seeking to refinance and existing loan or need financing for the purchase of a home. Statistics show the most common thread amongst the highest volume loan officers in this country is that in excess of 50% of their production comes from referrals and repeat business. This demonstrates the value of customer service. Back when I was in the business, I had many a client come to me wanting to refinance their home loan. Typically, I would run the numbers to determine how many years and or months that it would take to reach the break-even point with the cost of the refinance and then advise them whether the refi made good financial sense. A good example of this is a client where the refinance costs would take 7 years to recoup, and the client was in a job where he or she usually was transferred every 3 years. In this case it is obvious that the refinance might not be in the clients best interest. At the very least I would give the client the necessary information so the client could make an informed decision. This may have cost myself a loan origination right then, but my future business always increased due to the client recommending me to his or her friends.

HERMAN: Is going through the financial calculations to determine the break-even point for the veteran that you just went over required by VA policy or regulations?

Ed: No Herman, its not required by VA. But it is "customer service" at its finest.

Ed: While I am on my soapbox, another area that is of concern to me and VA is some of the tactics used by telemarketers to convince veterans to do an IRRRL with their company. Rather than me tell you about them, we are going to hear from Gerry Kifer, a VACO employee in Construction and Valuation. Gerry is also a veteran with a VA guaranteed home loan. Gerry is going to relate to you some of the phone calls he has received at home from telemarketers trying to convince him to do an IRRRL with their company.

GO TO TAPED GERRY KIFER ROLL-IN

Ed: As you heard from Gerry's story, there were some very questionable tactics used in the phone calls that he has received at home as a veteran being solicited for a VA IRRRL. The Department of Veterans Affairs always strives to provide all veterans the most up-to-date and pertinent information about their benefits. VA encourages lenders to educate or remind veterans about their home loan benefit and we truly appreciate you lenders helping the veterans obtain the benefit they have earned by serving their country in the armed forces. However, it is inappropriate to direct any information about benefits to veterans which is in any way misleading.

HERMAN: Bill, is there any thing else we need to tell the audience today.

Bill: When preparing for this broadcast we polled all nine RLCs and asked them to provide us with the most common errors that they find on both cash-out refinances and IRRRLs.

I am going to briefly go over some of the errors most frequently seen by the RLCs. Some of these items we have previously covered in the broadcast, but they are worth mentioning again. Lets start with cash-outs first:

Power Point # (x) Cash-Out Refinances

- The <u>maximum guaranty is $36,000</u> even for loans in excess of $144,000
- Cash back to the veteran for <u>home improvements or repairs</u> is not required by VA to be escrowed
- On refinancing <u>construction loans</u>, the 90% maximum loan does not apply as long as the veteran is not receiving equity/cash at closing. In

fact a construction refinance can go up to $240,000 with 25% guaranty if supported by the appraisal.

- Requires an original COE showing the loan to be refinanced, or a COE showing sufficient entitlement.
- Requires a termite certificate except in states that where not applicable
- CAIVRS are required on cash-out refinances.

Now lets go over IRRRLs.

Power Point: **IRRRLs**

- Line 1 of VA Form 26-8923, IRRRL worksheet states enter existing VA loan balance, but the way the form works out, it should really be the existing VA loan payoff.
- Missing IRRRL certification statements. The lender certifies that the prior VA loan was current (not more than 30 days past due) at the time of closing.
- Excess cash to veteran at closing. VA does not set a specific dollar limitation on cash refunds resulting from adjustments at closing, but for amounts in excess of $500, VA should be consulted as to its acceptability. The one exception is reimbursement of the veteran for the cost of energy efficiency improvements up to $6,000 if they were completed within the 90 days immediately proceeding the date of loan closing. The cost must be documented.
- A maximum of 2 discount points may be financed in the loan.
- CAIVRS is required on IRRRLs. The CAIVRS number should be entered on the IRRRL worksheet.
- A new VA case number is required on all IRRRL loans.
- Payoff of second mortgages is not allowed. Any second mortgage or lien must be subordinated to the new IRRRL mortgage.
- The veteran may be charged for a credit report or appraisal only if the credit report or appraisal was obtained.

We have gone over some of the most common errors found. These errors and others found by the RLCs, when issuing guarantees and during the full review process can be found on page **(x)** of your student materials.

Herman: Ad lib wrapup.